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MR. PRESIDENT, MR. SPEAKER AND HONORABLE MEMBERS OF THE
LEGISLATURE:

Presented, herewith, is my budget recommendation for the fiscal year beginning July 1, 2005. It has been prepared in accordance with the constitution and applicable statutes, and provides financial and program information to assist you in making informed decisions as you consider appropriations for the coming year. In accordance with Article VII, Section 11 of the Constitution, I will also prepare the original appropriations bill in conformity with this document.

During the formulation of this, my second Executive Budget recommendation, my budget development team again confronted a daunting challenge as we attempted to bridge the gap between anticipated revenue and expenditure needs. State revenue growth for the current year has been robust and positive growth is forecast for Fiscal Year 2005-2006. However, this revenue growth cannot keep pace with inflation and increases in mandatory expenditure areas and demonstrated needs. Nor can it adequately offset the substantial loss of federal funds in health care that our state has experienced.

Moreover, many of our state revenues are dedicated to trust funds or savings accounts that cannot be spent during periods of revenue growth. Even though we must replace vanishing federal funds, we cannot tap these trust funds or savings accounts to meet clearly justified needs.

Just to maintain our current level of services to our citizens in Fiscal Year 2005-2006 would require additional revenue growth of some \$687 million. This shortfall includes required increases in the Minimum Foundation Program (MFP) and TOPS, and replacement of lost federal funds and one-time revenues.

In recognition of this looming fiscal crisis, I asked state department heads to search for ways to save 1.75% of their Fiscal Year 2004-2005 discretionary General Fund or General Fund equivalent dollars in order to roll those savings forward. Please join me in applauding the cooperation and initiative of our department heads, who responded so proactively to this request and whose actions generated \$48.4 million to help us address our Fiscal Year 2005-2006 problem.

It is my firm belief that state government—like Louisiana families—must live within its means. Just as our Louisiana families carefully weigh priorities and stretch their dollars to make ends meet, we

must work together to ensure that every state budget dollar is well spent and yields a return that justifies our investment. To that end, my budget team worked diligently to identify ways to achieve savings, stretch our General Fund dollars, and maximize alternative revenues.

To construct a balanced budget—safeguarding core commitments to our citizens yet continuing investments in areas key to Louisiana’s economic growth and quality of life—we had to make hard decisions. Fortunately, we were well prepared. Louisiana has been nationally recognized for the quality of its budgeting methods. The Government Performance Project, the nation’s only comprehensive, independent analysis of how well states are managed, indicated in its *Governing* magazine report, “Grading the States 2005”, that Louisiana “boasts one of the strongest and best-institutionalized systems of performance-based budgeting and program evaluation in the country.”

My budget team scrutinized historical expenditure and staffing patterns and enlisted the help of our department heads to realign resources wherever possible and practical. This rightsizing resulted in a net statewide reduction of 863 positions—mainly vacant positions—for a savings of \$8.1 million in General Fund and \$33.7 million in total means of financing from continuation level. Let me stress that these positions were not cut simply to reduce state employee numbers. Position reductions were based largely on historical vacancy rates as well as anticipated facility and service changes for Fiscal Year 2005-2006. Therefore, in most cases the loss of vacant positions carries no adverse performance impact.

My Executive Budget realigns funding to more nearly reflect actual spending patterns and ensures that authorized positions are properly funded. Further, in those areas that have critical staffing needs, we have limited position reductions and transferred or added needed positions. For example, both Corrections Services and Culture, Recreation and Tourism have new facilities coming online in Fiscal Year 2005-2006. Both Justice and Environmental Quality have justified staff enhancements that will produce significant return on investment.

We asked department leaders and managers to continue their efforts to economize. As in prior years, all agencies are required to absorb general inflation increases projected to be 1.98% and medical inflation of 3.48%. This translates into a reduction of \$57.4 million from continuation level.

We have funded annualization of state employee merit increases, new merit increases, and increased costs of group insurance and retirement system costs. However, in most cases (including higher education), these increases are funded through reductions in other budget expenditure categories, thus producing no bottom line funding growth and savings of \$62.8 million from continuation level.

In addition to these savings strategies, our preliminary budget plans asked departments to achieve a discretionary General Fund savings target of 3.5% in Fiscal Year 2005-2006. As budget discussions continued, however, spending cuts at that level proved untenable for some agencies or were contrary to our stated policies and priorities. These agencies include: special schools, the Office of Family Support’s Client Services Program, Youth Services, Military Affairs, Elderly Affairs, the Indigent Defense Assistance Board, the Lieutenant Governor’s Office, family violence programs and higher education. Even with these exceptions, actual savings achieved totaled \$59.7 million in General Fund and \$155.2 million in total funds.

As a result of these various economies, most department budgets must make reductions in some areas for Fiscal Year 2005-2006 in order to maintain funding for higher spending priorities.

This Executive Budget recommendation includes \$182.9 million of state funds in Supplementary Budget Recommendations—often called “below the line” funding—from three sources:

- 1) \$48.4 million is dependent on proceeds of 1.75% savings achieved by state departments and agencies in Fiscal Year 2004-2005.
- 2) \$75 million is linked to hospital provider fees for non-state, non-rural hospitals.
- 3) \$59.5 million is based on using available one-time monies to defease state debt due next year. Fund balances in the Mineral Audit and Settlement Fund totaling \$26.6 million and \$32.9 million from Fiscal Year 2003-2004 surplus funds are available for this purpose.

Including these Supplementary Recommendations, this Executive Budget reflects a 3.54% increase in General Fund, a decrease of 0.30% in federal funds, and an overall increase of 1.74% (total means of financing, exclusive of double counts). Please remember that this small change in federal funds is a net figure. As federal rules, policies, and funding priorities shift, Louisiana may experience growth in federal funding for some areas but declines in federal funding for other services.

Because of the many critical fiscal problems that demanded solutions, this Executive Budget cannot address all needs to the extent that I believe is desirable. However, it does maintain fundamental services to our citizens and makes some new investments that are vital to the health, well-being, and prosperity of our Louisiana families.

- Many of you have heard this before but I never tire of saying it: Louisiana is open for business. Last year we reformed our ethics code and eliminated two onerous business taxes, a move that will cut more than a \$1 billion in business taxes. We are already reaping the rewards of these actions, with Union Tank Car as a prime example. In the first year of a 15-year commitment to that project, my Executive Budget includes \$1.5 million to facilitate construction of a manufacturing facility in Alexandria for Union Tank Car. To continue spreading the word that Louisiana is a good place to live and a good place to do business, my Executive Budget provides an additional \$4.2 million of one-time funding to enhance the \$1 million already budgeted for the state’s marketing needs. This additional funding will help the Department of Economic Development market the state both nationally and internationally, keeping Louisiana competitive with other states.
- While economic growth is critical for our state’s development, education is ultimately the key to Louisiana’s future. My recommendation includes an additional \$20 million for LA4, the state’s Pre-K program, bringing total funding to \$69 million, and continues \$8.5 million for private Pre-K. We are well on our way to providing an opportunity for quality Pre-K education to all of Louisiana’s at-risk children.

- The MFP is fully funded with an additional \$62.2 million for Fiscal Year 2005-2006. This provides another \$30.8 million for teacher pay raises, but does not reach the teacher pay level to which I am committed.
- In higher education, our support for the Louisiana Optical Network Initiative (LONI), the statewide fiber-optics network, is continued with \$4 million in funding. LONI will link Louisiana's universities at a speed thousands of times faster than currently possible and connect Louisiana to the National Lambda Rail, a consortium of research universities and technology companies deploying a nationwide networking infrastructure to support research in science, engineering, healthcare and education. \$6 Million is provided for a Performance Incentive and Community and Technical College Pool in the Board of Regents. Funding of \$3.6 million for Health Care Workforce Training is maintained. However, as with other agency budgets, higher education's mandated costs for classified merit and group insurance increases are not funded.
- My budget for health care implements many of the long-term care and disability services changes recommended by the Health Care Reform Panel. These include: (1) transferring the eligibility and monitoring functions to the Office of Citizens with Developmental Disabilities (OCDD) to create a single point of entry within the Department of Health and Hospitals (DHH); (2) restructuring OCDD and the developmental centers into one budget unit to provide efficiencies as the state moves towards community-based programs; (3) and reducing the reliance on nursing home facilities and expanding options for long-term care by closing the New Orleans Home and Rehabilitation Center and finding placement in the private sector for its residents, and changing the reimbursement methodology for nursing homes while offering incentives to nursing homes to provide community-based long-term care alternatives.

In constructing this budget, we were faced with replacing \$278 million in one-time revenues in DHH, \$227 million due to termination of the federal 175% Uncompensated Care Costs overpayment option, and \$58 million because the state's Medicaid match rate increases from 28.96% to 30.21%. My budget replaces these losses by adding state funds to DHH and the hospital budgets from many sources, including General Fund, excess Fiscal Year 2004-2005 revenues, and anticipated revenues generated by DHH from additional provider fees, costs reports, and certification of expenditures.

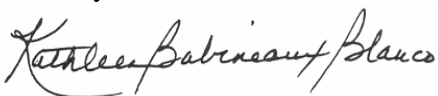
- My budget addresses some of the issues raised at our recent Solutions to Poverty Summit. Funding for the Microenterprise Development Program will maintain the existing regional investment in the program infrastructure and preserve an effective and proven vehicle for alleviating poverty through self-sufficiency. Additional funding is provided for Investment Development Accounts (IDAs). This will provide asset development and savings opportunities for low-income individuals to purchase a home, advance educational skills, or become a business owner.
- Our juvenile justice reform efforts are gaining momentum. The "firewall" between adult corrections and juvenile justice services will be reinforced by the physical relocation of Youth Services. My budget strengthens our transition to a community-based approach through a total funding increase of \$4.5 million. This includes \$1.4 million for 20 community-based residential

slots for female youth, \$675,000 for reclassification of security officer positions to new youth care worker positions, and \$614,000 to replace federal funds no longer available for residential substance abuse treatment. With support from both independent experts and community stakeholders, the department continues to implement initiatives to improve the environment and programming in its remaining secure facilities and to expand community-based opportunities for juveniles.

- For the Department of Transportation and Development (DOTD), my budget reflects DOTD's commitment to implement efficiencies and use innovative financing techniques. Our focus remains on aggressively improving transportation safety and comfort and attracting maximum federal funding. We have provided sufficient state funding to match all potential federal funds available under currently set match rates. Revisions to the federal-state match rates are being considered in Washington and the outcome is uncertain. DOTD's officials are actively pursuing a greater return of fuel tax money back to Louisiana. Additionally, the Fiscal Year 2005-2006 Executive Budget contains \$15 million for non-federal state highway projects.
- To reduce fraud and ensure that the state collects all revenue that is due, my budget enhances Medicaid fraud investigation and recovery capability in the Department of Justice, funds an audit tracking system in the Department of Revenue and provides for collection of NSF checks on behalf of state agencies by District Attorneys throughout the state.
- Finally, Louisiana's military men and women have proudly answered our nation's call and are carrying out their duties globally. We, too, must carry out our responsibilities to these courageous Louisianians. The Department of Veterans Affairs is expanding its outreach program to serve the National Guard and Reserve units returning home from deployment. The department will continue to host its annual Supermarket of Veterans Benefits in four regions of the state as well as an annual conference that focuses on the special needs of women veterans.

As we all know too well, our state's ability to meet the needs of our citizens is limited by the revenues available. I believe there are many needs not met fully, and many important investments not included in this Executive Budget. However, this recommendation utilizes a conservative, prudent and balanced approach—mindful of the need to stretch our dollars and effectively realign resources—in addressing the severe budget constraints our collective Louisiana family faces. I believe this budget recommendation gives us a solid foundation for further budget debate. Last year we faced a tremendous budget challenge, but, together, we made tough decisions that produced a sound spending plan for Louisiana. Once again, I look forward to working with each of you during this process. My staff and I stand ready to assist you in any way possible as you consider this budget.

Sincerely,



Kathleen Babineaux Blanco
Governor